



## THE CITY OF SAN DIEGO

DATE: July 12, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor's Quarterly Fraud Hotline Report – Qtr 4 Fiscal Year 2010**

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The Office of the City Auditor administers the City's Fraud Hotline program. The primary objective of the Fraud Hotline is to provide a means for City of San Diego employees and citizens to confidentially report (1) any activity or conduct in which they suspect instances of fraud, waste, or abuse and (2) violations of certain federal or state laws and regulations relating to City operations.

The Network Inc., an independent third-party provider, accepts calls from City employees and the public, providing complete confidentiality at (866) 809-3500. The Network prepares a report for each complaint received and sends them to the Office of the City Auditor via email. Callers can choose to remain anonymous, and complaints can also be submitted directly to the Office of the City Auditor.

### **Overall Comparison of Fraud Hotline Activities for FY 2009/FY2010**

The number of Hotline complaints significantly decreased in FY 2010 over the total number of complaints received in FY 2009. However, the percentage of fraud-related complaints to total complaints received, increased from 30.7% to 49.2 % in FY 2010 over FY 2009.

**Table 1**

	2009		2010	
Total Complaints	140	100.0%	61	100.0%
Fraud related	43	30.7%	30	49.2%
Non-Fraud Related	97	69.3%	31	50.8%

Marketing and outreach initiatives such as those recommended by the County Grand Jury will be identified and implemented in FY2011 in order to increase the visibility of the Fraud Hotline and thereby generate an increase in probative allegations of fraud, waste, and abuse.

**Fiscal Year 2010 Fourth Quarter Results by Complaint Types  
(April 1, 2010 – June 30, 2010)**

During the fourth quarter of Fiscal Year 2010, 20 complaints were filed with the Hotline. Of the 20 complaints received, four (20%) were classified as Fraud. The remaining complaints involved Policy Issues (15%), Customer Relations (10%), Conflicts of Interest (10%), Accounting/Audit Irregularities (10%), Employee Relations (5%), Substance Abuse (10%), Theft of Time (15%) and Wage/Hour Issues (5%). Table 2 lists the number of complaints received during the fourth quarter by category.

**Table 2**

<b>Category</b>	<b>Quarter 4</b>	<b>Percent</b>
	<b>Apr-Jun</b>	
Accounting/Audit Irregularities	2	10.0%
Conflicts of Interest	2	10.0%
Customer Relations	2	10.0%
Employee Relations	1	5.0%
Fraud	4	20.0%
Policy Issues	3	15.0%
Substance Abuse	2	10.0%
Theft of Time	3	15.0%
Wage/Hour Issues	1	5.0%
<b>Total</b>	<b>20</b>	<b>100.0%</b>

**Number of Complaints Received During Fiscal Year 2010  
(July 1, 2009 – June 30, 2009)**

As shown in Table 3 below, a total of 61 complaints were made to the Hotline for FY 2010. Of these complaints, 14 warranted City Auditor investigation, and 47 were non-material/non-fraud related complaints that were referred by the Hotline Intake Committee to departments for investigation, or were outside the purview of the Fraud Hotline. The volume of Hotline complaints received varied from 12 complaints in the 3<sup>rd</sup> quarter to 20 complaints in the 4<sup>th</sup> quarter. Quarters 1 and 2 were somewhat consistent with 15 and 14 calls received in each respective quarter.

**Table 3**

Category	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Sub- total	% of Grand Total	City Auditor Investigations	Not in Purview of OCA/ Referred to Departments
	Jul. – Oct.	Oct. – Dec.	Jan- Mar	Apr- Jun				
Fraud, Waste, and Abuse Related Categories:								
Accounting/Audit Irregularities	0	0	0	2	2	3.3%	1	1
Conflicts of Interest	1	0	0	2	3	4.9%	0	3
Fraud	3	5	2	4	14	23.0%	7	7
Falsification of Company Records	0	1	0	0	1	1.6%	0	1
Fraudulent Insurance Claims	0	0	1	0	1	1.6%	0	1
Kickbacks	0	0	1	0	1	1.6%	1	0
Theft of Time	0	2	0	3	5	8.2%	1	4
Waste and Abuse	1	1	1	0	3	4.9%	2	1
Subtotal Fraud	5	9	5	11	30	49.2%	12	18
Non-Fraud Related Categories:								
Customer Relations	2	1	1	2	6	9.8%	0	6
Discrimination	2	0	0	0	2	3.3%	0	2
Employee Relations	1	1	1	1	4	6.6%	0	4
Policy Issues	3	0	3	3	9	14.8%	1	8
Retaliation of Whistleblowers	1	0	0	0	1	1.6%	0	1
Safety Issues/ Sanitation	0	0	1	0	1	1.6%	0	1
Sexual Harassment	0	2	0	0	2	3.3%	1	1
Substance Abuse	0	0	0	2	2	3.3%	0	2
Wage/Hour Issues	0	1	1	1	3	4.9%	0	3
Workplace Violence	1	0	0	0	1	1.6%	0	1
Subtotal Non-Fraud	10	5	7	9	31	50.8%	2	29
Grand Total	15	14	12	20	61	100%	14	47

### Status of Hotline Complaints Received in Fiscal Year 2010 and Open Complaints from the Previous Year

As reported, 61 complaints were made to the Hotline between July 2009 and June 2010. In addition, at the end of the previous fiscal year ended June 30, 2009, 22 complaints remained open and unresolved for a total of 83 complaints. Table 4 below summarizes the status of these 83 complaints. Twenty-four (24) of the 83 remain open/unresolved and 59 were closed. Of the 59 that were closed, 14 were substantiated and/or corrective actions were taken, and 45 were unsubstantiated.

**Table 4**

<b>Complaint Status</b>	<b>City Auditor Investigations</b>	<b>Not in Purview of OCA</b>	<b>Total</b>	<b>Percent</b>
Complaints Open and Unresolved	9	15	24	28.9%
Investigations Closed	14	45	59	71.1%
Substantiated/Corrective Action	1	13	14	23.7%
Unsubstantiated	13	32	45	76.3%
Total	23	60	83	100.0%

The 59 closed investigations include seven complaints that were outside the purview of City operations and closed with no further action after receiving/reviewing the complaint. Three City Auditor “Open/Unresolved” complaints are being referred to ongoing/planned performance audits.

### City Auditor Investigations Summary – for Fiscal Year 2010 (July 2009 – June 2010)

Table 5 below is a summary of the 23 City Auditor investigations that were conducted during FY2010, including the call category, a description of the complaint, and the case status. Nine (No. 1-9) were open and unresolved on July 1, 2009, and 14 investigations (No. 10-23) were initiated in FY 2010.

**Table 5**

<b>No.</b>	<b>Call Category</b>	<b>General Description of Complaint</b>	<b>Outcome / Status</b>
1	Fraud 906244653	Allegation regarding the validity of an employee’s education, prior work experience and use of City benefits	Complaint Substantiated/ Corrective Action Taken
2	Fraud 809161921	Allegation regarding the sale of a City asset	Complaint Unsubstantiated
3	Fraud 113264653	Allegation of contracting irregularities	Complaint Unsubstantiated
4	Fraud 907074328	Allegation of abuse of public moneys to a group/association	Complaint Unsubstantiated

No.	Call Category	General Description of Complaint	Outcome / Status
5	Fraud 909103794	Allegation of possible misappropriation of funds by an agency	Complaint Unsubstantiated
6	Fraud 113165293	Allegation of excessive overtime	Complaint Unsubstantiated
7	Waste and Abuse 905124126	Allegation of inefficiencies regarding the City's work order system	Complaint Unsubstantiated
8	Policy Issues 807293009	Allegation of employees being pressured to circumvent City policy	Complaint Unsubstantiated
9	Policy Issues 904141995	Allegation that the City was overcharged for Pension contributions	Complaint Unsubstantiated
10	Policy Issues 904131415	Allegation that the City was overcharged for Pension contributions	Complaint Unsubstantiated
11	Policy Issues 113903752	Allegation of unauthorized contracting by City official	Complaint Unsubstantiated
12	Sexual Harassment 113336270	Allegation of improper behavior towards minors during work hours	Complaint Unsubstantiated (Withdrawn)
13	Kickbacks 113492434	Allegation of supervisor receiving kickbacks for making favorable work assignments	Complaint Unsubstantiated
14	Accounting/Audit Irregularities 905062229	Allegation of accounting irregularities involving a late deposit of City funds	Matter resolved, no further action
15	Waste and Abuse 907292434	Allegation of City staff wasting resources on projects unlikely to be funded	Complaint referred to Planned/Ongoing Performance Audit
16	Customer Relations 901135085	Allegation of not adequately coordinating City repairs resulting in waste of resources	Referred to Ongoing/Planned Performance Audit
17	Customer Relations 905074206	Allegation of not adequately coordinating City repairs resulting in waste of resources	Referred to Ongoing/Planned Performance Audit
18	Fraud 113058084	Allegation of embezzlement by a City employee	Complaint Open/Unresolved
19	Fraud 113672262	Allegation of misappropriation and conflicts of interest by contracted organization	Complaint Open/Unresolved

No.	Call Category	General Description of Complaint	Outcome / Status
20	Waste and Abuse 113341715	Allegation of private use of City materials	Complaint Open/Unresolved
21	Waste and Abuse 113304452	Allegation of lack of internal controls and improper expenditures by an agency	Complaint Open/Unresolved
22	Accounting/ Audit Irregularities 114042861	Fraud risk assessment requested by department	Complaint Open/Unresolved
23	Theft of Time 113771077	Allegation of employees continuously arriving late for work and taking extended lunch periods	Complaint Open/Unresolved

#### **City Auditor Substantiated Complaints**

The Office of the City Auditor conducted an investigation of a City Comptroller employee in response to a complaint made to the City's Fraud Hotline. The complaint alleged that the employee submitted false information on City employment and promotional applications regarding the employee's prior work experience, and fraudulently obtained health and dental insurance benefits for an individual that was not a dependent or spouse. Our investigation concluded that the allegations are substantiated in part. We found the employee misrepresented some information on City job applications, and enrolled an individual as a spousal dependent for City insurance benefits while not legally married to the individual. We recommended the Office of the City Comptroller take appropriate disciplinary action based on the information provided, and we recommended the Risk Management Department implement a new process to verify spousal and dependant eligibility before insurance benefits are provided. This Hotline Report with management's response can be found on our website at: [http://www.sandiego.gov/auditor/reports/hotline\\_pdf/hotline\\_sd\\_emp\\_%20investigative\\_report.pdf](http://www.sandiego.gov/auditor/reports/hotline_pdf/hotline_sd_emp_%20investigative_report.pdf)

#### **Complaints Referred to Departments that were Substantiated and/or Corrective Actions Taken**

Complaints made to the Fraud Hotline that are non-material in nature or are not related to fraud, waste, or abuse are forwarded to the respective department to address the issue(s) or concern(s) reported. The departments are advised that callers to the Hotline are provided a report number and a date to call back to check the status of their complaints. Additionally, this report number allows for the City Auditor staff to request additional information from the complainant as their allegations are investigated.

The department is required to report their plan to resolve the matter back to the City Auditor within ten days and then submit a follow-up report when the final resolution is determined. The City Auditor will follow up to ensure replies are received from the departments.

July 12, 2010

During Fiscal Year 2010, departments provided to the City Auditor a total of 13 replies that identified complaints as substantiated or corrective action(s) were taken. In order to maintain compliance with California law regarding confidentiality requirements for whistleblower hotlines, and still provide the public with pertinent information, we have prepared Table 6 below with a general description of these complaints and the action taken by the departments.

**Table 6**

<b>No.</b>	<b>Call Category</b>	<b>General Description of Complaint</b>	<b>Outcome</b>
1	Conflicts of Interest 908243769	Allegation regarding City employee using City facilities to conduct advertising for contract business	Corrective Action Taken. Employee admonished to discontinue using City facilities to promote contract business
2	Theft of Time 113135660	Allegation regarding City employees misusing Internet	Corrective Action Taken. Employees interviewed and admonished on proper use of the Internet
3	Customer Relations 113695597	Allegation of unresponsive telephone customer service	Corrective Action Taken. Department contacted citizen and resolved matter and will be installing new customer service telephone system
4	Customer Relations 908031759	Allegation of not conducting timely building inspections	Corrective Action Taken. Department established revised procedures and communication enhancements
5	Customer Relations 909093881	Allegation of broken water meter not being repaired	Corrective Action Taken. Department repaired broken meter and apologized to customer
6	Sexual Harassment 113055134	Allegation of inappropriate touching	Complaint Substantiated. EEO investigation conducted
7	Theft of Goods/Services 812104351	Allegation of employee stealing gas from City facility	Corrective Action Taken. Department reviewed and updated gas pump access list and conducted refresher training of employees
8	Wage/Hour Issues 113188942	Allegation of disputed back pay by former employee	Corrective Action Taken. Department met with and reviewed back pay calculation with former employee

No.	Call Category	General Description of Complaint	Outcome
9	Wage/Hour Issues 113492311	Allegation of supervisor making unauthorized deductions from employees pay for fundraiser	Corrective Action Taken. Department provided employees with opt-out forms and refunds issued to employees who did not want to make contributions
10	Retaliation of Whistleblowers 807152491	Allegation by employee regarding activities in previous department	Corrective Action Taken. Department senior managers met with employee and reviewed issues with employee's prior position and reviewed processes for receiving employee's requests
11	Accounting/ Audit Irregularities 113793008	Allegation by employee of continuous payroll problems	Corrective Action Taken. Department identified issue that impacted payroll of employee's unit and resolved issue.
12	Theft of Time 113697888	Allegation of employee utilizing City computer to access social networking sites	Corrective Action Taken Department counseled employee and conducted review of administrative regulations prohibiting activity at staff meeting
13	Customer Relations 113998986	Allegation by citizen regarding excessive building code violations	Corrective Action Taken. Department coordinated appropriate compliance exemptions with citizen

**The Fraud-Related Hotline Complaints Referred to Departments for Review or Closed Due to Complaints Not Relating to City Operations or Other Reasons**

During FY 2010, the Hotline received 18 complaints that were categorized as fraud-related but were not investigated by the Office of the City Auditor. Of these 18 fraud-related complaints, 10 were referred to departments for investigation, one was closed due to lack of information, two were closed because they related to previous Hotline complaints, and five were closed because the allegation did not relate to City operations. A summary of these 18 complaints is shown in Table 7 below including the call category, a description of the complaint, and the case status.

**Table 7**

No.	Call Category	General Description of Complaint	Status/Outcome
1	Conflict of Interest 908243769	Allegation regarding City employee using City facilities to conduct advertising for contract business	Corrective Action Taken. Employee admonished to discontinue using City facilities to promote contract business
2	Theft of Time 113135660	Allegation regarding City employees misusing Internet	Corrective Action Taken. Employees interviewed and admonished on proper use of the Internet



No.	Call Category	General Description of Complaint	Status/Outcome
3	Theft of Time 113697888	Allegation of employee utilizing City computer to access social networking sites	Corrective Action Taken Department counseled employee and conducted review of administrative regulations prohibiting activity at staff meeting
4	Accounting/ Audit Irregularities 113793008	Allegation by employee of continuous payroll problems	Corrective Action Taken. Department identified issue that impacted payroll of employee's unit and resolved issue.
5	Theft of Time 113361610	Allegation relates to employees not observing assigned work hours when supervisor not present	Complaint Unsubstantiated
6	Waste and Abuse 113656681	Allegation relates to a department's authorization to conduct a special program	Complaint Unsubstantiated
7	Fraudulent Insurance Claim 113441165	Allegation relates to fraudulent industrial disability claim	Open/Unresolved
8	Conflict of Interest 113792515	Allegation relates to misuse of official position	Open/Unresolved
9	Conflict of Interest 113792524	Allegation relates to misuse of official position	Open/Unresolved
10	Theft of Time 114072506	Allegation relates to suspected handling of personal business on city time	Open/Unresolved
11	Fraud 113749049	Allegation relates to Section 8 housing violation	Not enough information; no action taken
12	Fraud 113406118	Allegation related to a previous Hotline complaint	No Further Action Necessary
13	Falsification of City Records 113258589	Allegation related to a previous Hotline complaint	No Further Action Necessary
14	Fraud♦ 113008866	Allegation regarding credit card charges made by alleged scam work-from-home Internet company	No Further Action Necessary
15	Fraud♦ 113342792	Allegation regarding identity theft by victim-caller not related to City operations	No Further Action Necessary

No.	Call Category	General Description of Complaint	Status/Outcome
16	Fraud ♦ 114088160	Allegation received by victim of condo rental scam in Oceanside, CA	No Further Action Necessary
17	Fraud ♦ 113763867	Allegation regarding telephone solicitation not related to City operations	No Further Action Necessary
18	Fraud ♦ 113772805	Allegations relate to bigamy by an individual who is not a City employee	No Further Action Necessary

♦ These “Fraud” complaints listed as “*Referred to Departments*” were not in the purview of the City of San Diego and were referred to an outside agency as a potential fraud, waste or abuse call.

## Conclusion

The Office of the City Auditor is dedicated to investigating all of the reported claims of material fraud, waste and abuse. During FY 2010 we have spent approximately 1,329 hours administering the Fraud Hotline, coordinating the Intake and Review committee activities, and investigating 23 Fraud Hotline complaints.

I will be prepared to discuss this report at the next available Audit Committee meeting.



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Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Council Members  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst